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RUEHSW/AMEMBASSY BERN 0100
RUEHLO/AMEMBASSY LONDON 0697
RUEHMO/AMEMBASSY MOSCOW 0057
RUEHUL/AMEMBASSY SEOUL 0179
RUEHCV/AMEMBASSY CARACAS 1702
RUEHIN/AIT TAIPEI 0127
RUMIAAA/HQ USSOUTHCOM J2 MIAMI FL
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C O N F I D E N T I A L BRIDGETOWN 000517

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TW, UK, DO, XL
SUBJECT: DOMINICA: SLOW START-UP FOR NEW OFFSHORE SERVICES

REF: A. 06 BRIDGETOWN 1934
[1](#)B. 04 BRIDGETOWN 1637

Classified By: DCM Mary Ellen T. Gilroy for reasons 1.4(b) and (d).

[1](#)1. (C) Summary: Although the government of Dominica has announced plans to resuscitate its economic citizenship program and offshore financial services sector, it has yet to develop the necessary policy framework and institutions to do so. The existing Financial Services Unit, envisioned as the regulatory body over the citizenship program and offshore sector, is only a shell as it awaits legislation establishing its mandate. Furthermore, another possible weak link in the institutional chain is Minister for Economic Development and Planning Julius Timothy, the man hired to manage the citizenship program and offshore sector, but who also has been a target of corruption allegations. Given these obstacles, it is unlikely that the government of Dominica will soon achieve its goal of reviving its economic citizenship program and offshore financial services sector. End Summary.

BACKGROUND

[1](#)2. (U) In his 2006 budget address, Prime Minister Roosevelt Skerrit announced that reviewing and revitalizing the offshore financial services sector and the economic citizenship program would play an important role in Dominica's economic recovery. The economic citizenship program has operated continuously since the height of its popularity in the 1990s, albeit with significantly reduced activity in recent years. The offshore financial services sector, which also peaked in the 1990s, lacked crucial regulation, bred corruption and money laundering, and was finally blacklisted in 2000 by the Financial Action Task Force, created by the G7. (Note: Dominica was de-listed in November 2002. End Note.) In September 2006, PM Skerrit appointed Julius Timothy, co-founder of the opposition United Workers' Party (UWP) and Minister of Finance under the previous UWP government, to resurrect these programs. Timothy crossed the aisle (ref A) to serve as Minister of Economic Development and Planning, a junior ministerial position in the Ministry of Finance and Planning.

CREATING A REGULATOR

¶3. (U) As a first step in the restructuring process, the Dominica parliament must pass legislation empowering the Financial Services Unit (FSU), a division of the Ministry of Finance and Planning. Without a clear mandate, the FSU has been unable to perform its supervisory and regulatory functions, even though it was established in 2004. In addition to regulating the economic citizenship program and the offshore financial services sector, the FSU would also regulate various domestic financial services, such as credit unions, building societies (a form of mortgage unions), and insurance companies. Legislation establishing the FSU's mandate is pending in the parliament and will be debated following the spring recess.

CURRENT STATE OF ECONOMIC CITIZENSHIP

¶4. (SBU) Although Dominica's economic citizenship program was a financial success from its inception in 1991 until 2001, interest in the program dwindled after Dominica increased both its price of citizenship and due diligence in reviewing the prospective candidates' backgrounds. Interest dropped even further when Canada began requiring Dominican citizens to travel with a visa because its government doubted the integrity of the program (ref B). The current price of Dominica's economic citizenship is USD 75,000 for an individual or USD 100,000 for a family of four. In recent years, Dominica's economic citizenship program has been all but dormant, having issued only 20 passports in 2006, 7 in 2005, and 13 in 2004. Dominica approved no economic citizenships in the first quarter of 2007. These numbers contrast sharply with those of the 1990s when Dominica sold over 1,000 passports (ref B).

¶5. (SBU) Since his appointment as Minister of Economic Development and Planning in September 2006, Julius Timothy further tightened Dominica's regulations by barring a number of countries or regions from participating in the program: Afghanistan, Chechnya, Iraq, North Korea, Pakistan, Saudi Arabia, Somalia, Sudan, and Yemen. The countries of origin of successful economic citizenship applicants for the last few years are as follows:

Country	2006	2005	2004
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USA	3	1	1
Iran	4	-	4
Russia	7	-	4
¶S. Korea	-	-	1
Switzerland	-	-	3
Taiwan	-	6	-
UK	6	-	-

¶6. (U) Currently the Ministry of Finance and Planning runs background checks on all applicants before issuing passports.

The Ministry has contracted with two U.S. firms to perform this vetting: Bishops Investigative Service Worldwide in Boca Raton, Florida, and Kroll, Inc., in Miami, Florida.

¶7. (SBU) To revive the citizenship program, Dominica has recently requested proposals from businesses interested in reviewing and consulting on the program. Although several proposals have been put forth, Dominica has yet to choose a company. The FSU is also developing strategies to combine economic citizenship with "resident tourism," which would allow those making a substantial investment in Dominica to obtain permanent resident status. This resident status could be converted to citizenship after three years.

OFFSHORE SERVICES ON BACK BURNER

¶8. (C) Although Prime Minister Roosevelt Skerrit hired Timothy with grand promises that offshore financial services would be the future of Dominica's economy, there has been no movement towards reviving this sector during Timothy's seven months in office. Timothy stated that the creation of the offshore financial services sector is "on hold right now" and that there is no official timeline because of other projects on which the Ministry of Finance is focusing. Eleanor Astaphan, manager of the FSU told PolOff that, once the FSU gains its official mandate, it will first have to revamp the domestic insurance system before it can focus on offshore services. As with the economic citizenship program, Timothy and the FSU are planning to contract with private consulting firms to review the legislation creating the sector and to handle due diligence once the sector is up and running. Dominica has already begun discussions with a few businesses interested in this role.

THE GOOD AND THE QUESTIONABLE

¶9. (C) In many respects, it appears that Dominica is moving carefully in reviving its economic citizenship program and offshore financial sector. Many government officials have emphasized their determination to avoid returning to the days of being blacklisted (ref A). One of Dominica's greatest assets for developing these offshore economic programs is Astaphan. She seems to be sincere, professional, and to have Dominica's best interest in mind. However, to date she has not been given the tools and resources to do her job.

¶10. (C) It is disturbing that PM Skerrit hired Timothy, the man who served as Finance Minister during Dominica's offshore financial services fiasco in the 1990s, to revitalize the sector along with the economic citizenship program (ref A). In private conversations, various contacts claimed that Timothy has a corrupt political past. According to one regional political analyst, PM Skerrit was willing to ignore the corruption allegations in order to gain control over Timothy's Roseau North parliamentary constituency. The analyst also speculated that by appointing Timothy a junior minister in one of the ministries he oversees, the Prime Minister would be able to supervise him closely.

COMMENT

¶11. (C) As he seeks to redevelop Dominica's offshore sector and economic citizenship program, PM Skerrit will have to balance a number of competing interests. PM Skerrit recognizes that the offshore business could breathe some life into Dominica's foundering economy. However, Dominica, one of the poorest countries in the region, is not in a position to compete with well-established offshore financial centers, such as those in the Cayman Islands or the Bahamas. To attract more offshore business, Dominica might be forced to cut corners in its regulatory framework and enforcement and thus risk repeating some of its errors of the 1990s. How PM Skerrit will balance these interests will probably remain unclear for some time as his government pursues other priorities. However, hiring Timothy to run the offshore sector and economic citizenship program does not appear to be a step in the right direction.

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